

PalArch's Journal of Archaeology of Egypt / Egyptology

CLEARANCE PROCESS AND ITS EFFECT ON THE SUPPLY CHAIN PERFORMANCE IN JEDDAH PORT

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Bushra Al-Haddad, Mervat Chuman, Rafa Kouki Clearance Process and Its Effect on The Supply Chain Performance in Jeddah Port-- Palarch's Journal of Archaeology of Egypt/Egyptology 18(12), 31-39. ISSN 1567-214x

Keywords: Import, Export, Clearance Time, Delay, Documentation, It System

ABSTRACT

The study aimed to determine factors affecting the supply chain performance. Qualitative research method was used as data were collected from existing literature related to the study. The study population were all business which had import or export shipment through Jeddah port. The samples were IKEA and Al-Dawliya Watches & Jewellery. The custom clearance procedures are back bone of international trade and supply chain but bottleneck for import and export business if the process is not well managed. This process might change overtime to follow up with world economies changes. The failure to clear cargoes on certain period also affected the business with increment lead times and product availability and decreased customer service level. Longer clearing times are also caused by both merchants and government representative of customs clearance.

INTRODUCTION

Supply chain network consists of any business entities that cooperate together to acquire raw materials, converts these raw materials into specified final product and deliver these final products to end consumers. The business environment changes such as globalization, advanced technology, developed transportation networks and outsourcing drove the supply chain network entities to be located in different countries around the world. The time and distance are not main obstacle of collaboration among businesses but for successful supply chain network need enforce policies, tools and programs that facilitate the cooperation. Hence, the policies meet the customer demands, granting order deliveries on time and maintained product availability. This

successful management will lead to responsive and efficient supply chain network.

Outsourcing or globalization meant that custom clearance procedures will involve in importing and exporting as main step in the supply chain process. The supply chain performance is affected by numerous factors that prevent from being responsive or more efficient. The custom clearance procedures in ports also main problem that faced by supply chain managers and businesses nowadays. Besides, another problem that faced by supply chain managers included environmental uncertainties, information technology, supply chain relationships, logistics and add on value process. The custom clearance processes can affect the supply chain management in many aspects included creating bottlenecks in the supply chain, increasing lead time, product availability, reducing customer service level and causing delivery delays. Custom clearance is regulated by the government.

The supply chain is network which connects several parties included suppliers, retailers, distributors and manufacturer [1]. Supply chain is defined as “the recognition by a systemic organization, strategic implications of tactical activities involved in managing various flow in a supply chain” [2]. The supply chain management involves all stages of providing a product to customers from raw materials and production until product is ready for the customer. Based on strategic management approach, supply chain has two dimensions included operational supply chain and strategic supply chain [3]. Supply chain management also known as managing supply chain activities in most efficient and effective way to gain competitive advantage and create customer value.

There were several factors affect supply chain performance such as environmental uncertainty, information technology, supply chain relationship, logistics and value-added process. The business growth strategy leads the supply chain networks to expand to several countries around the world. Poor economy management, prices fluctuations and inflations or economic crises lead to uncertainties. The political or legal factors will arise when materials cross borders, uncertainty due to borders control regulations, corruption degree, bribery and political situation [4].

The supply chain quality is related to information availability. Information technology (IT) facilitates the communication between participants in the supply chain. The IT usage effectiveness also depends on managing information flow ability between participants. Information flow affects supply chain cost, quality, flexibility, delivery duration of goods and services and ultimately organization profits [5]. The communication through IT will improve the relationship between suppliers, retailers and customers. Furthermore, IT tools are divided into three group included communication tools, resource-planning tools and supply chain management tools [6]. The IT usage has direct impact on businesses performance, large information can transmit during network smoothly and inexpensively, thus needed data will be updated and help in creating best strategies which is critical factor of supply chain success [7].

Supply chain relationship is an integration of several firms plan and executes supply chain operations and gain mutual benefits. Supply chain integration is a collaboration process and interaction which firms work together and form mutual outcomes. This cooperation helps to share critical information and resources that will lead to identify the exact customer demand and reduce associated costs of unnecessary operation or decision. The long-term relationship should establish with buyers and suppliers and lead to lower product costs, better designs and delivery flexibility [8].

Logistic function is responsible for all movement and storage processes in the supply chain to provide finished goods to final customers from original suppliers to consumers. Logistic manages material flow from suppliers to the organization (inbound logistics) and from organizations to customers (outbound logistics) [9]. The supply chain management help organization to manage addition of value in goods and services throughout the supply chain as single process with common goal of customer satisfaction [10]. Improving quality increased profitability of firm and reduce product defect costs. The quality management affects product quality, customer satisfaction, market share and competitive advantage. better quality cannot be achieved without integration in the supply chain and continues effort to make improvement between all supply chain parties [10].

The purpose of this study is to understand and determine if the supply chain performance is affected negatively by complication and long clearance processes in import and export activities. In addition, the study also aimed to determine factors affecting the supply chain performance. The customer clearance practices and procedures applied for importing and exporting goods using Jeddah port were examined with focused on IKEA Saudi Arabia and Al-Dawliya Watches & Jewellery. The main objective was to evaluate procedure performance and provide recommendation to reduce lead-time and standardize clearance process leading to improvement in supply chain performance.

METHODOLOGY

The qualitative research was conducted to investigate, describe and understand a situation. This method depended on people believes, opinions, perspective (individual experiences, meaning socially or historically) and words to describe or develop a meaning. The data were collected through interviews, observations and document analysis. The quantitative research to measure number or statistics, thus data were collected and analyzed by statistical methods. The strategies such as experiments and surveys were done to collect the data.

In this study, the qualitative research method was used and data were collected from existing literature related to the study. The two companies selected as the study samples were IKEA and Al-Dawliya Watches & Jewellery which import their good through Jeddah port. A semi structured interview was conducted with personal working in Jeddah port to clarify the clearance procedures that implemented on all business that involved import and export goods through Jeddah port. The case studies and interview were used to understand the

clearance procedures applied. The interview was semi-structured interview consisted of two different open ended questions series which explored the procedures to clear shipments in Jeddah port.

IKEA's Transportation and Shipping department manager was involved in this study. Meanwhile, an interview was held with AL-Dawliya Watches & Jewellery with logistic executive. Besides, assistant of Acting Director of Container Logistics in Red Sea Gateway terminal RSGT in Jeddah Port also involved in this study. The study population was all business which had import or export shipment through Jeddah port. The samples were IKEA and Al-Dawliya Watches & Jewellery. The questionnaire included service providers which are different from the questions provided to importing companies.

RESULT AND DISCUSSION

The import procedures included uploading the files into Electronic Data Interchange (EDI) system. The EDI file was sent before the ship arrival. This file contained all data related to all containers loaded on the ship. The consignee was informed of shipment arrival by shipping lines and terminal in RSGT via short messaging system (SMS). Each custom broker usually has registered code number that enable the employee to log in the EDI system to be able to enter the consignment information into the computer based on the documents submitted by the importer and print an initial import declaration. Meanwhile, relevant documents were submitted to the customs preparation section which audits document attached to the declaration. The declared document was compared with the merchandise's certificate of origin, packing list, and invoice with certificate of origin (import procedures and seaports). The import declarations were sorted out and consignment were referred based on origin of country or any other control criteria to the inspection support (import procedures and seaport).

The import declarations were referred to the customs security section to supervise the consignment preparation by unloading company and the determined location. The import declarations were distributed among the customs inspectors electronically (import procedures and seaports). The customs decide the examination mode whether the container was manually examined by grounding the container and choose samples randomly or sent for scanning. The container was scanned or manually inspected, matched the imported goods against the document attached to the declaration and difference was not accepted. The container which matched the documents and had cleared the import declaration procedures were finalized and referred to the customs group supervisor.

The customs broker paid the customs duties to the bank. The transaction was transmitted electronically from the bank to the release unit. The release unit prints the customs declaration after custom duties payment. The custom brokers received good release notification with copy custom declaration. The broker hands over all required documents to the transporter after container clearance to pull out the containers from the port. The customs security officer at the gate received the release notification from the driver and allowed the

consignment to be moved out after the customs verification procedures complete.

These procedures were done for all business included IKEA and Al- Dawliya Watches & Jewellery. The main difference would be procedures finishing speed which depended on the proficiency of company broker and document completion. IKEA import goods from different countries such as China, Germany and Italy through Jeddah port. The average time for containers clearance from the port was between 5 and 7 days and would extend to 2 weeks period. A certificate of origin was issued after replaced the order by the supplier prior to export which generally legalized by the shipper local chamber of commerce. IKEA Athens issued containers original documents (invoice and packing list) and legalized at Saudi embassy. The arrival notifications were sent to the broker for receiving delivery order from shipping line as per arrival notification.

For Al-Dawliya Watches & Jewellery, the products were imported from China. The supplier sent pro-forma invoice. The contract to declare commitment from the seller to the buyer was sent prior to the good arrival. The contract contained details about purchased good such as item description, cost and weight. The supplier used free on-board shipping term such as FOB which meant the seller was only responsible for delivering the shipment only to export port defined in the pro-forma. The supplier contacts freight company or freight forwarder to deliver the shipment to Jeddah port. The forwarder is responsible for pick up, loading and handling in export port and issue the customs declaration, custom duty for issued customs declaration and delivery order.

There were different export types conditions and different procedures for each condition such as goods that were manufactured and exported by same company, export of goods which were manufactured by one company, purchased by another company and exported, temporary export of goods to be displayed in another market to be brought back and export of personal items for example cars. The export procedures included container hired from the shipping lines. The cargo stuffed and manifest that contained information about the goods (type, value, quantity, and weight) that was loaded and shipped was prepared. Besides, the manifest was submitted to the customs through the broker/ representative agent of the exporting company. The bayan (declaration) issued by customs was received. The bayan and manifest submitted to the customs to compare the documents with declaration. The inspection date was assigned and inspection mode was defined. A container was randomly chosen to be inspected by the customs, as well as ready to be loaded.

The discharging to booking for inspection took 5 days with booking to grounding took 1 day, grounding to clearing took 2 days and clearing to delivery took 6 days. Hence, average clearance time was 14 days from containers discharge to delivery. IKEA containers clearance took less time according to the manager. IKEA clearance time had minimum average 5 to 7 days and maximum of 14 days. The clearance time divided as delivery order

included issued by carrier 1 day, documentation need 1 day, port procedure took 2 days, inspection at port minimum 3 to 4 days and pull out from port 1 day. The Al-Dawliya Watches & Jewellery had clearance time with minimum of 5 days and maximum of 7 days. In high season such as Ramadan, the inspection period can take up to 7 days and clearance time would be longer.

There were many reasons for clearance process delay. All parties referred to documentation as major delay caused. The documentation problem was resulted from incomplete documents if the documents were not authorized by the Chamber of Commerce of exporting company and caused by the supplier. Meanwhile, the containers were sent for laboratory test and usually done after the inspection for food items and medicines sent to Saudi Food and Drug Authority and electronics were sent to Communications and Information Technology Commission. Besides, other reason was inspection issue which might extend between 3 days and 4 days. The second inspection process depended on the inspector's mood and inspection process also resulted in missing, damaged pieces or long time to reorder the container after the inspection. The consignees also the reasons for containers clearance delay.

The information technology had been used in uploading the electronic data interchange EDI, discharging the container, and booking for inspection. Meanwhile, IT also used in planning the container. The container was booked for manual inspection, terminal planner plans the container in the yard based on commodity or dangerous goods. The container inspection would be done if the inspection by scanning and container sealed and shifted from inspection to delivery block. In issuing the final delivery order to hand delivery to the gate security and issued the forms such as bayan (declaration) and calculating demurrage fees.

Both companies were demanded for improvement in the process, the clearance time considered long and there was no specific tie duration for clearing the containers. The period also influenced by the season. Large companies who provided the country with important and essential goods or raw material such as food, cars and any goods needed for basic need, have clearance priority. In addition, inspection period also consumed time with appointment and depended on inspector's mood. The product status is also problem that merchant suffered especially Al-Dawliya that did not have insurance since few damaged products due to manual inspection. Besides, language barrier also led to the clearance time problem. English was formal language used in the document and this could lead to rejection of document if there are differences in compilation of documents from other language. The limitation number of transportation companies also led to the clearance time since lack of transportation to deliver cleared shipments to the merchants' stores or warehouse compared to cleared shipments in Jeddah port. Large transportation companies deal with large companies, hence smaller companies had deal with private's transportation truck that found inside the port if the companies did not deal with third party company. The private truck owners have no fixed fares and take advantages with fares increment. IT system also improved by introducing receiving and issuing electronically form such as digital invoicing

and paperless work and improved the Saudi EDI system has led to a more efficient and user-friendly process.

Documentation problem such as incorrect document, missing document and late document submission were issues contributed to clearance delay. It is the importer and exporter responsibility to obtain accurate, complete documents, updated with any changes in the required forms for the clearance process and review with the broker for needed documents and submit to custom authorities at the right time. This problem can be solved through communication with supplier, carrier, and broker in receiving and handed the customs with all required document for clearance. The IT system in port had improved contributed towards facilitation of process in document submission immediately on time without the need to go to port or even before vessel arrive and hence, reduced lead time.

The IT system was improved to enhance the Saudi EDI system and lead towards user-friendly system among importers and exporters. The enhancement of the system was through E-clearance. E-clearance was one way to improve the IT in the port which resulted in paperless work included all invoices and forms were submitted electronically. In this study, merchants or representative agents submitted the needed documents and pay duties electronically. In more advanced environment, the needed forms related to the cargo are received prior to shipment arrival and ready for inspection and clearance. If the parties responsible for information such as carrier and consignee or broker did not coordinate with each other effectively, this would negatively impact the clearance such as sending the shipment to port storage area instead of clearance area. If the information was misleading or incomplete, the problem might raise security concerns about the shipment and exposed for intensive inspection or denial of entering to Jeddah port. The system implementation not only involved the customs but also needed to improve IT system and included importer, exporter, broker and carrier. The IT system improvement system also helped in solving the documentation problems by receiving and sending the documents electronically.

The manual inspection was contributed to clearance delay, damaged and missing items. The manual inspection process should be standardized. Good conditions should be remained as before inspection, thus strict measures and service evaluation should be implemented. Therefore, the evaluation papers which provide the product condition before and after inspection and inspector and handling worker name must be submitted to port authorities.

The port capacity can be improved by managing the workers responsible of load and unload and handling process. The importers suffered from inappropriate way of handling the containers which caused damages. The increment in the workers' wages or better incentives to workers would also encourage the workers to enhance their work. Furthermore, there should be an increased in number of transportation companies to cater to the number of shipments and standard transportation cost must implement, so that the cost do not change during peak period.

For quality assurance system, Jeddah port handles shipments that were imported or exported from around the world, accordingly operation quality was key to increase port competitiveness. The system aimed to ensure full commitment to enhance the provided service that business need. The customers were paying for clearance procedures. Thus, the customer should obtain satisfying services that meet their needs. This system included employees' performance evaluation, training and language learning to ensure better quality of overall customs clearance performance. Besides, quality assurance offered the importers or exporters standard time and procedures regardless of seasonal and company size. Research and development are also beneficial to identify importer or exporter's evaluation of the service and their suggestion for process improvement.

CONCLUSION

In conclusion, custom clearance procedures were regulated by government. These procedures were longer and complicated, thus sometimes caused longer clearance time and shortage in supply. Hence, this problem affected the business performance by cost increment and decreased product availability. The average time to clear containers in Jeddah port for both companies was between 5 days and 7 days which are considered relatively long. Many factors either by importer or exporter or by port authority influenced the process and caused the delays, documentation was common problems suggested by all parties. The documentation, IT system improvement, manual inspection improvement, and quality assurance system needed to be enhanced for shorter clearance time.

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